DENISON MINES LIMITED

INTERIM REPORT

1976

DENISON MINES LIMITED

To Our Shareholders:

Consolidated net earnings for the six months ended June 30, 1976, were $9,582,000 or $2.10 per share compared with restated results for the same period in 1975 of $16,094,000 or $3.52 per share. Earnings for the 1975 period have been restated to reflect the adjustment of prices under uranium supply contracts with Japanese and Spanish customers.

Net revenue from uranium operations was lower because there were no deliveries scheduled to Empresa Nacional del Uranio, S.A. of Spain in this period whereas deliveries were made in the comparative period in 1975. A delivery to ENUSA of Spain is scheduled later in 1976. Revenue from investments increased, oil and gas exploration costs were substantially higher, and the earnings of Lake Ontario Cement Limited declined.

URANIUM

International demand for uranium continues to be strong and negotiations are continuing in the domestic market. To meet commitments and future requirements, long term production planning has been intensified and several projects to improve environmental conditions were continued and others initiated.

Operations at the Denison uranium mine at Elliot Lake were interrupted in April for 11 days by a strike in protest against a decision of the federal Anti-Inflation Board to roll back the wage rates of a collective agreement agreed to by one of the unions and the Company. The ruling of the Board subsequently was revised. Collective agreements, negotiated with unions representing other employee groups, await rulings from the Anti-Inflation Board.

The production rate showed improvement, however, a shortage of skilled manpower continues to be a constraint. The housing program, which will result in an improved availability of housing units later this year, together with the recruiting and training program, and recent wage improvements, should ease the situation.

OIL & GAS

Spain – Denison participated in the drilling of a delineation well located 3 kilometers northeast of the Casablanca #1 discovery well. This well encountered a similar zone in similar thickness as the discovery well and was tested at rates of up to 9,735 barrels per day on restricted choke. A third well is to be drilled shortly on the Casablanca structure. An application has been made to the Spanish Government for the right to install a temporary production platform at the site of the discovery well, Casablanca #1, for the purpose of carrying out extensive well testing. The information from this test, together with that obtained by further delineation drilling, will provide the necessary technical data needed for developing the field. Denison's interest in the Casablanca Permit is 25% but may reduce to 15% upon participation by the Spanish Government. This interest applies to the original five blocks acquired by Canada Northwest Land and Denison.

The Chevron group has now committed to the drilling of wells on two additional blocks pursuant to the farmout agreement.

Four additional blocks in which Denison holds a 10% interest were awarded by the Spanish Government. Extensive seismic surveys are now under way.

Aegean Sea – Under an agreement in principle with Oceanic Exploration Company of Denver, Colorado, Denison is to purchase a 68¾% interest in oil and gas licenses in the Northern Aegean Sea off the coast of Greece. The area includes a license to develop the Prinos oil field discovered in 1974 by Oceanic and its other partners. The agreement is subject to approval of the Greek State. The 68¾% interest in the North Aegean Sea is subject to reservation to Oceanic of a net profits interest from production.

Subject to other respective governmental approvals, Denison would also obtain partial interests in oil exploration licenses held by Oceanic onshore and offshore Cameroon, Nicaragua and in the British sector of the North Sea.

United Kingdom – Drilling was carried out by the Chevron group under a farmout agreement on Block 3/7 in the U.K. North Sea. Well 3/7-1 encountered oil bearing Jurassic sands and was tested at a rate of up to 3,100 barrels of oil per day. The well has been suspended but can be re-entered at a future date. A second well will commence drilling in July on a separate structure.

United States – Testing indicated the wells drilled and completed in Texas and Illinois to be submarginal. The gas discovery well drilled at Temblor in California was tested at commercial rates and will be placed on production. A second well on a separate prospect in California was abandoned.

Canada – In Alberta, two oil development wells were drilled at Virginia Hills, while one gas development program has commenced, of which twelve wells have been cased. At Killam, a multi-zone gas well was drilled and completion is in progress. Denison also participated in drilling of a successful oil well in the Freeman field. In the Kinakin area, east of Judy Creek, two wells are to be drilled in search for gas. At Edson, the gas conservation facility has been expanded by the addition of a compressor and the construction of a second compressor station to handle additional gas from other wells is planned. In the Del Bonita area of Alberta, Denison has acquired interests ranging from 33-⅓% to 100% in approximately 150,000 acres. Drilling is planned in the near future. A well was drilled in the Golden area by farmees at no cost to Denison. In the Sierra area in British Columbia one well was drilled and has been abandoned.

Unless there is a change in the Alberta Government royalty formula, the bulk of recently announced increases in oil and gas prices will flow to the province. The oil price rise is in two steps – $1.05 a barrel as of July 1 and 70 cents a barrel on January 1, 1977. Natural gas price increases have the effect of raising the cost at Toronto from $1.25 per MCF to $1.40½ as of July and to $1.50½ effective January 1, 1977.

COAL

British Columbia

Quintette – The final phase of a detailed feasibility study program is now in progress and is expected to be completed this year to permit a production decision to be made early in 1977. The British Columbia Government has expressed its interest in the development of coal areas in the northeastern part of the province and we are coordinating our activities with appropriate government agencies.

The Quintette metallurgical coal property, located in the Northeastern Region of British Columbia, covers 96,000 acres and is considered to contain 2.8 billion tons of coal in place.

In June, Mitsui Mining Co. Ltd. and Tokyo Boeki Ltd. agreed to acquire the 36.75 percent interest in Quintette Coal Limited previously held by Alco Standard Corporation. It is intended that the Japanese interest will be further adjusted so as to increase Canadian based ownership in the development. The feasibility study and the construction, development, and operation of the Quintette project will now be managed by Denison.

Saxon – An agreement has been reached with the Ruhrkohle Group comprising Ruhrkohle AG, Mitsui and Co. Ltd., and a large French steel producer to carry out a $5,000,000 two year exploration and feasibility study program on our Saxon coal property located about 30 miles south of the Quintette property in British Columbia. Under the agreement, the Ruhrkohle Group may purchase up to a 50% interest in Saxon Coal Limited in three stages: 15% immediately, 15% in 1977 and 20% in 1978.

The feasibility study program will be carried out during 1976 and 1977 with a view to a production decision in early 1978. The feasibility study program and the construction, development, and operation of the Saxon project will be managed by Denison. The Saxon metallugical coal property covers 33,485 acres and preliminary work has identified some 120 million tons of coal amenable to surface mining. Potential reserves are considered to be in the region of 500 million tons in place.

Alberta – Further development of our Rock Lake, Wildhay, and Coalspur coal properties in Alberta will await our full assessment of the new coal policy recently issued by the Government of Alberta.

EXPLORATION

The exploration emphasis continues to be on uranium.

Based on the release of recent government airborne surveys, properties have been acquired in Manitoba, Northwestern Ontario, and the Northwest Territories. On the five groups of claims and two permit areas totalling 142,000 acres acquired by the Company in Manitoba, the provincial government has indicated that it will participate, as it is entitled to do, by contributing half the exploration expenditures and taking a 50% interest in the properties.

In the Key Lake area of Saskatchewan, field work has commenced on our claim blocks covering 26,800 acres. The Saskatchewan Government has also decided to participate with the company by contributing half the exploration expenditures to acquire a 50% interest in these claims.

Under an agreement in principle with Urangesellschaft and the Saskatchewan Mining Development Corporation, Denison may earn a 30% interest in uranium properties in the Charlebois Lake area of Saskatchewan.

In the United States, drilling carried out in Wyoming on the Wind River Basin uranium properties has yielded some encouraging results. Drilling is also being carried out on the LeBar Hall properties in the Powder River Basin of Wyoming where the possibility of in situ leaching is being considered.

Discussions are continuing with agencies of two foreign governments with a view to Denison participating in the exploration and development of uranium properties in these foreign countries.

LAKE ONTARIO CEMENT LIMITED

Consolidated net earnings for Lake Ontario Cement Limited, a 54% owned subsidiary, amounted to $475,000 for the first six months of the year compared to $801,000 for the same period in 1975. Consolidated sales for the period totalled $23,811,000, a 49% increase over the same period in 1975. This increase is primarily attributable to a strong residential construction market in Ontario, the commencement of clinker shipments to the United States under a long term contract, and the inclusion of the sales of an associated company, which became a partly-owned subsidiary effective January 1, 1976. The decline in net earnings is largely due to extra costs resulting from a lengthy and expensive start-up of the new pre-heater kiln system, the negative effect of the premium on the Canadian dollar, increased interest costs and reduced margins for ready-mixed concrete in Ontario.

Although the new pre-heater kiln system came into production just prior to the end of 1975, mechanical and equipment difficulties have limited production during the first half of 1976. Recent operating experience indicates that these operating problems have been largely solved and lower production costs and improved efficiency are anticipated during the last half of the year.

We wish to thank our shareholders and employees for their continued support and interest in the progress of the Company.

On behalf of the Board of Directors

STEPHEN B. ROMAN
Chairman of the Board

JOHN KOSTUIK,
President.

Toronto, Ontario.
July 16, 1976.

DENISON MINES LIMITED

Summary of Consolidated Earnings

	Six Months Ended June 30 1976	1975
Gross revenue —		
Minerals (uranium, yttrium, oil & gas)	$43,146,000	$51,613,000
Cement and cement products	23,811,000	15,964,000
	66,957,000	67,577,000
Production, exploration & administration costs	47,051,000	34,420,000
	19,906,000	33,157,000
Revenue from investments	3,443,000	780,000
Net earnings before items shown below	23,349,000	33,937,000
Depreciation, depletion and amortization	3,023,000	2,406,000
Interest on long-term debt	848,000	776,000
	3,871,000	3,182,000
	19,478,000	30,755,000
Income and mining taxes	9,670,000	14,290,000
Earnings before minority interest	9,808,000	16,465,000
Minority interest	226,000	371,000
Net earnings for the period	$ 9,582,000	$16,094,000
Net earnings per share	$ 2.10	$ 3.52

Consolidated Statement of Changes in Financial Position

	1976	1975
Sources of Working Capital		
Current operations	$14,091,000	$20,346,000
Net effect on working capital of settlement of a legal action by Lake Ontario Cement Limited	900,000	308,000
Realization of long-term investments	312,000	2,231,000
Mortgages issued on housing units	948,000	—
Contribution of net working capital by subsidiary on consolidation (note 2)	1,443,000	—
Increase in advances on concentrates sales contracts	—	26,080,000
	17,694,000	48,965,000
Uses of Working Capital		
Additions to fixed assets	10,621,000	13,630,000
Purchase of long-term investments	394,000	713,000
Reduction of long-term debt	227,000	104,000
Reduction of advances on concentrates sales contracts	1,207,000	1,265,000
Dividends to minority shareholders of Lake Ontario Cement Limited	199,000	150,000
Dividends	4,568,000	3,883,000
	17,216,000	19,745,000
Increase in working capital	$ 478,000	$29,220,000

NOTES:

1. Comparative figures for the six months ended June 30, 1975 have been restated to reflect retroactive price adjustments made in the last quarter of 1975 and to conform with presentation in the 1975 annual report.
2. Effective January 1, 1976 an associated company became a subsidiary of Lake Ontario Cement Limited and, accordingly, the accounts of that company have been consolidated since that date.
3. Revenue from investments includes an appreciation in market value of marketable securities of $2,361,000 (1975 — $916,000). The 1975 comparative figure includes a gain on sale of a long-term investment of $1,045,000 and a write-down of $2,100,000 in the carried value of a portfolio investment.

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